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STATE OF CONNECTICUT
DEPARTMENT OF REVENUE SERVICES

SN 2005(10)

SPECIAL NOTICE

**2005 Legislation Repealing the Succession Tax and
Amending the Connecticut Gift Tax and the Connecticut Estate Tax**

Purpose: This Special Notice describes the legislation enacted during the 2005 session of the Connecticut General Assembly amending the Connecticut gift tax, imposing a Connecticut estate tax, and repealing the succession tax.

Effective Date: Effective, for Connecticut gift tax purposes, to gifts made during calendar years beginning on or after January 1, 2005 and, for Connecticut estate and succession tax purposes, to estates of decedents dying on or after January 1, 2005.

Statutory Authority: Conn. Gen. Stat. §12-344, as amended by 2005 Conn. Pub. Acts 251, §66, and by 2005 Conn. Pub. Acts 3, §50 (June Spec. Sess.); Conn. Gen. Stat. §§12-359, 12-364, and 12-366, as amended by 2005 Conn. Pub. Acts 3, §51, 52, and 53 (June Spec. Sess.); Conn. Gen. Stat. §§12-391 and 12-392, as amended by 2005 Conn. Pub. Acts 251, §§69 and 70, and by 2005 Conn. Pub. Acts 3, §§54 and 55 (June Spec. Sess.); Conn. Gen. Stat. §12-396, as amended by 2005 Conn. Pub. Acts 251, §113; Conn. Gen. Stat. §12-398, as amended by 2005 Conn. Pub. Acts 3, §57 (June Spec. Sess.); Conn. Gen. Stat. §§12-642 and 12-643, as amended by 2005 Conn. Pub. Acts 251, §§67 and 68; and 2005 Conn. Pub. Acts 3, §58 (June Spec. Sess.).

Succession Tax Repealed: The succession tax does not apply to estates of decedents dying on or after January 1, 2005. The provisions creating statutory liens on joint tenancy property in which a decedent had an interest or on other property in which a decedent had an interest are inapplicable to estates of decedents dying on or after January 1, 2005.

Connecticut Gift Tax Changes: The Connecticut gift tax law will continue to apply to *Connecticut taxable gifts*, which are taxable gifts, as determined for federal gift tax purposes that are:

- Gifts of Connecticut real property;
- Gifts of tangible personal property situated within Connecticut; **or**
- Gifts of intangible personal property made by Connecticut residents.

For Connecticut taxable gifts made during calendar years beginning on or after January 1, 2005, taxpayers will be required to file a Connecticut gift tax return even if no Connecticut gift tax is *due*. (In the past, if no Connecticut gift tax was due, no Connecticut gift tax return was required to be filed.) Connecticut gift tax is now due when the aggregate amount of Connecticut taxable gifts made during all calendar years beginning on or after January 1, 2005, exceeds \$2 million. See *Connecticut Unified Estate and Gift Tax Exemption Amount*, below.

Once the \$2 million threshold is exceeded, Connecticut gift tax is due on the aggregate amount including the first \$2 million. When Connecticut taxable gifts are made by the donor during future calendar years, Connecticut gift tax will again be due on the aggregate amount of all Connecticut taxable gifts made by the donor during all calendar years beginning on or after January 1, 2005. However, a credit will be allowed in the amount of the Connecticut gift tax previously paid on Connecticut taxable gifts made by the donor during all prior calendar years beginning on or after January 1, 2005.

Connecticut Unified Estate and Gift Tax Exemption Amount: Connecticut has a unified exemption for Connecticut estate and gift tax of \$2 million. Similar to the federal applicable exclusion

amount, the Connecticut unified exemption amount applies to either gift tax or estate tax. Unlike the federal applicable exclusion amount, the Connecticut unified exemption amount is only conditionally available.

- If the aggregate amount of Connecticut taxable gifts made during all calendar years beginning on or after January 1, 2005, is \$2 million or less, the Connecticut unified exemption amount is available, and no gift tax is due from the donor. If the aggregate amount of Connecticut taxable gifts made during all calendar years beginning on or after January 1, 2005, exceeds \$2 million, the Connecticut unified exemption amount is unavailable and gift tax is due on the aggregate amount including the first \$2 million.
- If the amount of a decedent's Connecticut taxable estate is \$2 million or less, the Connecticut unified exemption amount is available and no estate tax is due from the decedent's estate. If the amount of a decedent's Connecticut taxable estate exceeds \$2 million, the Connecticut unified exemption amount is unavailable and estate tax is due on the Connecticut taxable estate including the first \$2 million.

Computing the Estate Tax on a Resident Decedent's Estate: Effective for estates of decedents dying on or after January 1, 2005, a resident decedent's estate will now pay a Connecticut estate tax measured by the amount of the decedent's *Connecticut taxable estate*. The amount of a decedent's Connecticut taxable estate is the sum of:

- The amount of the decedent's gross estate, less allowable deductions (other than the deduction for state death taxes paid under I.R.C. §2058), as determined for federal estate tax purposes, and
- The aggregate amount of Connecticut taxable gifts made by the decedent during his or her lifetime during all calendar years beginning on or after January 1, 2005.

If the sum exceeds \$2 million, Connecticut estate tax is due on the sum including the first \$2 million. A credit will be allowed for Connecticut gift tax previously paid on Connecticut taxable gifts made by the decedent during his or her lifetime during all calendar years beginning on or after January 1, 2005. Connecticut estate tax is not due when the sum is \$2 million or less. (See *When a Decedent's Estate is Not Required to File a Return with DRS.*)

Computing the Estate Tax on a Nonresident Decedent's Estate: The initial steps taken to compute the Connecticut estate tax liability of a nonresident decedent's estate are the same as those steps taken to compute the Connecticut estate tax liability of a resident decedent's estate. However, computing the Connecticut estate tax liability of a nonresident decedent's estate requires an additional step.

The tax (before the allowance of a credit for Connecticut gift tax previously paid on Connecticut taxable gifts made by the decedent during his or her lifetime during all calendar years beginning on or after January 1, 2005) is multiplied by a fraction.

- The numerator of the fraction is the amount, for federal estate tax purposes, of that part of the decedent's gross estate that is attributable to real property situated in Connecticut and to tangible personal property having an actual situs in Connecticut; **and**
- The denominator of the fraction is the amount, for federal estate tax purposes, of the decedent's gross estate.

The product of the pre-credit tax multiplied by the fraction is the Connecticut estate tax liability of the nonresident decedent's estate. A credit will then be allowed in the amount of the Connecticut gift tax previously paid on Connecticut taxable gifts made by the decedent during his or her lifetime during all calendar years beginning on or after January 1, 2005.

No Separate Gift Tax and Estate Tax Returns: DRS has prescribed a single form—**Form CT-706/709**, *Connecticut Estate and Gift Tax Return*—parts of which are to be used to report a person's Connecticut taxable gifts, whether or not Connecticut gift tax is due, and parts of which are to be used to compute the Connecticut estate tax due from the person's estate.

DRS has also designed a single form—**Form CT-706/709 EXT**, *Application for Estate and Gift Tax Return Filing Extension and for Estate Tax Payment Extension*—to be used to apply for an extension of time to file Form CT-706/709.

When a Decedent's Estate is Not Required to File a Return with DRS: Where the amount of a decedent's Connecticut taxable estate is \$2 million or less, the estate will be required to file **Form 706 NT**, *Connecticut Estate Tax Return (for Nontaxable*

Estates), with the Connecticut probate court for the district within which the decedent resided at date of death, or, if the decedent died a nonresident of Connecticut, with the court of probate for the district within which the decedent's real property or tangible personal property is situated. The estate will not file Form 706 NT with DRS.

The probate judge is to review each Form 706 NT and issue a written opinion in each case in which the judge determines that the estate is not subject to Connecticut estate tax.

Also, where the amount of a decedent's Connecticut taxable estate is \$2 million or less, any certificate of release of estate tax lien will be issued by the probate court.

Tax Table: The table below is used to compute:

- The Connecticut gift tax on the aggregate amount of Connecticut taxable gifts made during calendar years beginning on or after January 1, 2005; and
- The Connecticut estate tax on the amount of a decedent's Connecticut taxable estate.

**Aggregate Amount of
Connecticut Taxable
Gifts or amount of
Decedent's Connecticut
Taxable Estate**

Tax

Not over \$2,000,000	No tax
Over \$2,000,000 but not over \$2,100,000	5.085% of the excess over \$0
Over \$2,100,000 but not over \$2,600,000	\$106,800 plus 8% of the excess over \$2,100,000
Over \$2,600,000 but not over \$3,100,000	\$146,800 plus 8.8% of the excess over \$2,600,000
Over \$3,100,000 but not over \$3,600,000	\$190,800 plus 9.6% of the excess over \$3,100,000
Over \$3,600,000 but not over \$4,100,000	\$238,800 plus 10.4% of the excess over \$3,600,000
Over \$4,100,000 but not over \$5,100,000	\$290,800 plus 11.2% of the excess over \$4,100,000
Over \$5,100,000 but not over \$6,100,000	\$402,800 plus 12% of the excess over \$5,100,000

**Aggregate Amount of
Connecticut Taxable
Gifts or amount of
Decedent's Connecticut
Taxable Estate**

Tax

Over \$6,100,000 but not over \$7,100,000	\$522,800 plus 12.8% of the excess over \$6,100,000
Over \$7,100,000 but not over \$8,100,000	\$650,800 plus 13.6% of the excess over \$7,100,000
Over \$8,100,000 but not over \$9,100,000	\$786,800 plus 14.4% of the excess over \$8,100,000
Over \$9,100,000 but not over \$10,100,000	\$930,800 plus 15.2% of the excess over \$9,100,000
Over \$10,100,000	\$1,082,800 plus 16% of the excess over \$10,100,000

**Credit Allowed to a Resident Decedent's
Estate for Certain Taxes Paid to Other States
or the District of Columbia:**

If real or tangible personal property of a resident decedent is located outside Connecticut and is subject to estate, inheritance, legacy, or succession taxes by any state (other than Connecticut) or by the District of Columbia, a credit will be allowed to the resident decedent's estate equal to the lesser of:

- The amount of such taxes paid to such other state or states or to the District of Columbia; or
 - An amount computed by multiplying the tax (before the allowance of the credit) by a fraction. The numerator of the fraction will be the value, for federal estate tax purposes, of that part of the decedent's gross estate that is attributable to real property situated in such other state (or the District of Columbia) and to tangible personal property having an actual situs in such other state (or the District of Columbia). The denominator of the fraction will be the value, for federal estate tax purposes, of the decedent's gross estate.
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**Connecticut QTIP Election for Connecticut
Estate Tax Purposes:**

For estates of decedents dying on or after January 1, 2005, where an executor or administrator of a decedent's estate made an election under I.R.C. §2056(b)(7) (QTIP election) with respect to any qualified terminable interest property (QTIP), that election will be binding for

Connecticut estate tax purposes, and no Connecticut QTIP election (described below) may be made.

Where an executor or administrator of a decedent's estate has made no such federal QTIP election, a Connecticut QTIP election may be made with respect to any property that would otherwise be QTIP but for the fact that the executor or administrator did not make a federal QTIP election. The value of any property in which the decedent's spouse had a qualifying income interest for life and with respect to which a Connecticut QTIP election was made shall, in computing the Connecticut estate tax liability of the decedent's spouse, be added to the federal gross estate of the decedent's spouse.

While a federal QTIP election for federal gift tax purposes will be binding for Connecticut gift tax purposes, there is no Connecticut QTIP election (comparable to the above-described Connecticut QTIP election for Connecticut estate tax purposes) that may be made for Connecticut gift tax purposes.

Determination of Domicile: Any person required to file a Connecticut estate tax return (either Form CT-706/709 or Form 706 NT) for a decedent who is claimed to be a nonresident of Connecticut may file with DRS a request for determination of domicile by completing and submitting **Form C-3, State of Connecticut Domicile Declaration**.

Parties to a Civil Union Recognized under Connecticut Law: For Connecticut taxable gifts made during a calendar year beginning on or after January 1, 2006, federal gift tax provisions pertaining to gifts to or by spouses will be applied to parties to a civil union recognized under Connecticut law as if those federal gift tax provisions also recognized such a civil union in the same manner as Connecticut law. (Connecticut law treats parties to a civil union recognized under Connecticut law in the same manner as married persons.)

For estates of decedents dying on or after January 1, 2006, federal estate tax provisions pertaining to transfers to or by spouses will be applied to parties to a civil union recognized under Connecticut law as if those federal estate tax provisions also recognized such a civil union in the same manner as Connecticut law.

Connecticut Generation-Skipping Transfer Tax Inapplicable to Generation-Skipping Transfers Occurring after December 31, 2004: The Connecticut Generation-Skipping Transfer Tax does not apply to generation-skipping transfers after December 31, 2004, because I.R.C. § 2604, as amended by Pub. L. No. 107-16, on which the Connecticut tax was based, does not apply to generation-skipping transfers after December 31, 2004.

Effect on Other Documents: None affected.

Effect of This Document: A Special Notice announces a new policy or practice in response to changes in State or federal laws or regulations or to judicial decisions. A Special Notice indicates an informal interpretation of Connecticut tax law by the Department of Revenue Services (DRS).

For Further Information: Call DRS during business hours, Monday through Friday:

- **1-800-382-9463** (in-state), or
- **860-297-5962** (from anywhere)

TTY, TDD, and Text Telephone users only may transmit inquiries anytime by calling 860-297-4911.

Forms and Publications: Forms and publications are available anytime by:

- **Internet:** Preview and download forms and publications from the DRS Web site at **www.ct.gov/DRS**
 - **DRS TAX-FAX:** Call **860-297-5698** from the handset attached to your fax machine and select from the menu. Only forms (not publications) are available through TAX-FAX.
 - **Telephone:** Call **860-297-4753** (from anywhere), or **1-800-382-9463** (in-state) and select **Option 2** from a touch-tone phone.
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Paperless Filing Methods (fast, easy, free, and confidential):

- **For business returns:** Use **Fast-File** to file sales and use taxes, business use tax, room occupancy tax, estimated corporation business tax, business entity tax, withholding tax, or nursing home user fee returns over the Internet. Visit the DRS Web site at **www.ct.gov/DRS** and click on **File/Register OnLine**.

- **For resident income tax returns:** Use *WebFile* to file personal income tax returns over the Internet. Visit the DRS Web site at **www.ct.gov/DRS** and click on *File/Register OnLine*.

DRS E-News Service: Get connected to the latest news from DRS. Receive notification by e-mail of changes to legislation, policies, and procedures. **DRS E-News** is easy to sign up for – visit **www.ct.gov/DRS** and follow the directions. Subscription services are available for employer's withholding tax, *Fast-File* information, Alerts, News, Press Releases, and Top 100 Delinquency List.

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Estate Tax
Succession Tax
Gift Tax
Generation-Skipping Transfer Tax
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